

Mixed bag - Reduces debt; margin guidance lowered

About the stock: NCC is one of the leading construction companies in India with a presence across varied verticals of infrastructure space such as buildings, roads, water, mining and electrical. Standalone order book is robust at ₹ 36,303 crore.

- Well-diversified order backlog, robust execution capabilities, and strong focus on debt reduction and working capital to characterise NCC over next few years.

Q4FY22 Results: NCC's performance was a mixed bag.

- Standalone revenue improved 19.7% YoY to ₹ 3,134.3 crore backed by its strong order book position and pick-up in execution
- EBITDA declined 7.9% YoY to ₹ 266.9 crore. Margin moderated to 8.5%, down 255 bps YoY owing to input price rise
- Reported PAT was up 110.5% YoY at ₹ 243.2 crore. However, NCC booked an exceptional gain of ₹ 134.5 crore pertaining to profit on sale of its stake in subsidiary company, additional area allotted to NCC Ltd and provisions

What should investors do? NCC's share price has de-grown by 35% over the past five years (from ~₹ 95 in May 2017 to ~₹ 62 levels in May 2022).

- Sharp debt reduction has been key positive. However, margins may be see volatility in FY23. We, thus, assign HOLD vs BUY rating, earlier.

Target Price and Valuation: We value NCC at ₹ 70/share (at (9x FY24 P/E)

Key triggers for future price performance:

- Firmly placed to capitalise on huge infrastructure pipeline; continued momentum in awarding activities to translate into healthy order inflows
- Expect 10.3% revenue CAGR over FY22-24E with margins at 10%
- Focus on monetisation of non-core subsidiaries to bring-in cash flows
- Unwinding of receivables to provide liquidity boost; strengthening of balance sheet likely with gradual decline in debt

Alternate Stock Idea: Besides NCC, we like HG Infra Engineering in the infra space.

- Quality play on segment with strong execution/robust balance sheet
- BUY with a target price of ₹ 885/share



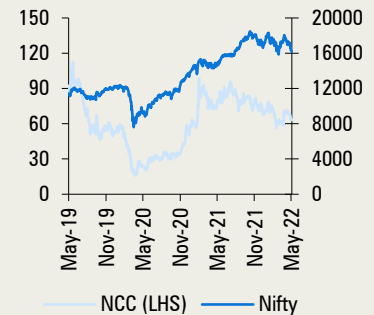
Particulars

Particular	Amount
Market Capitalization (₹ crore)	3,802.4
Total Debt (₹ crore)	1,184.1
Cash (₹ crore)	558.5
EV (₹ crore)	4,428.0
52 week H/L (₹)	98 / 56
Equity capital	122.0
Face value	2.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	19.7	19.7	19.7	19.7
DII	11.7	11.5	12.1	12.3
FII	13.0	13.3	11.6	8.9
Others	55.6	55.6	56.6	59.2

Price Chart



Key Risks

Key Risk: (i) Better-than-expected execution; (ii) Any further stress on margins

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Key Financial Summary

₹ crore	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	8,218.8	7,256.0	9,930.0	4.7%	10,927.5	12,090.1	10.3%
EBITDA	1,030.2	855.4	996.1	7.8%	1,096.2	1,212.8	10.3%
EBITDA Margin (%)	12.5	11.8	10.0		10.0	10.0	
Adj. PAT	414.7	261.5	344.5	8.8%	421.2	489.1	19.2%
Adj. EPS (₹)	6.8	4.3	5.6		6.9	8.0	
P/E (x)	10.0	14.5	7.8		9.0	7.8	
EV/EBITDA(x)	5.2	6.0	4.4		4.2	3.8	
RoNW (%)	8.1	4.9	5.9		6.9	7.5	
RoCE (%)	14.7	11.2	13.3		13.8	14.4	

Key business highlight and outlook

Soft order inflows in Q4; margin guidance lowered

NCC's order book at the end of FY22 on a standalone basis was robust at ₹ 36,303 crore (3.7x order book to TTM bill ratio), largely aided by ₹ 9,922 crore order inflow in FY22. However, the construction industry has faced heightened competitive intensity during Q4FY22 with aggressive bidding for projects by various developers, which temporarily halted the order inflows momentum for NCC (was muted at ~₹ 300 crore). Going forward, the management expects traction in order inflows to improve with its strong emphasis on a) buildings: affordable housing, b) water: higher traction being witnessed in Jal Jeevan mission, c) roads and expressways, d) metro and railways and e) mining segments. Overall, the management has guided for ~₹ 15,000 crore of order inflows during FY23. In terms of execution, it is targeting 10-15% YoY growth in topline in FY23 to be driven by a) higher executable order book and b) pick-up in execution with 100% operating efficiency. However, the pressure on margins is likely to remain in the near term with rise in construction material prices such as cement and steel. With these, the management has guided for EBITDA margin of ~10% in FY23 (vs. 11.8%, 10% in FY21, FY22, respectively).

Debt declines sharply...

NCC's standalone debt during Q4FY22 has declined by a whopping ₹ 852 crore QoQ and was at ₹ 1,184 crore as on FY22-end aided by healthy receivables being witnessed due to clearance of old dues and improvement in payments from various government authorities. However, its finance cost remained muted at ₹ 123.1 crore due to a) increase in mobilisation advances, and b) rise in bank guarantee/ letter of credit expenses. Going forward, the company expects its debt to remain in the range of ₹ 1,000-1,200 crore with higher working capital requirements (partly to be aided by higher profitability, and better cash flows management). Further, disbursement of its pending dues would normalise working capital days over the medium term.

Other highlights

- Desired level of raw material unavailability and supply chain disruptions caused due to lockdown-like situations in various cities of China due to rising cases of Omicron variant of Covid-19 pandemic and Russia-Ukraine war has triggered a rise in commodity prices. In turn, this impacted the margin performance in Q4FY22. The management expects margin pressure to remain in the near term
- Andhra Pradesh contributes ₹ 4,211 crore currently to the overall order book (including older orders worth ₹ 1,104 crore). Additionally, NCC has collected ₹ 328 crore during FY22, which aided its net receivables (including unbilled revenue) to come to ₹ 510 crore. Further, the company has received ₹ 56 crore during Q1FY23 from the state government and **expects most of its pending dues to get cleared over the near-term**
- **Total order from Jal Jeevan Mission was at ~₹ 9,900 crore.** Out of these, the company has **executed order worth ₹ 1,218 crore till FY22-end. As per the management, the execution has picked-up pace with finalisation of DPRs in most of the orders and expects to execute orders worth ~₹ 5,000 crore during FY23**
- Prompt payments from various central government authorities and collection of old dues drove overall working cycle improvement for NCC. **As on FY22-end, total receivables for NCC were at ₹ 2,492 crore (collection period: 92 days)**
- NCC has entered into a share purchase agreement with GRPL Housing Pvt Ltd to sell its entire shareholding in NCC Vizag Urban Infrastructure Ltd (a subsidiary company; equity investment: ~₹ 50 crore; loans and advances: ₹ 308 crore). The total equity consideration is at ₹ 199.5 crore (to be paid in four instalments). Out of these, the company has received first payment of ₹ 47.5 crore during Q4FY22 with balance expected by FY23-end. Similarly, the company is likely to realise 50% of the loan amount in FY23 and balance in FY24. The funds are likely to be used for working capital requirements and reduce the company's outstanding debt
- The board of directors have recommended a dividend of ₹ 2 per equity share for FY22

Exhibit 1: Variance Analysis

Year	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ(%)	Comments
Net Sales	3,134.3	2,984.0	2,617.7	19.7	2,703.9	15.9	Topline aided by pick-up in execution
Other Income	45.0	24.0	21.2	112.6	19.7	128.2	
Total Construction Expenses	1,489.3	1,315.9	1,172.6	27.0	1,118.6	33.1	
Employee cost	115.6	128.3	89.9	28.7	112.0	3.3	
Other expenditure	1,262.4	1,226.4	1,065.6	18.5	1,180.6	6.9	
EBITDA	266.9	313.3	289.7	-7.9	292.8	-8.8	rise in input costs impacted margin
EBITDA Margin (%)	8.5	10.5	11.1	-255 bps	10.8	-231 bps	
Depreciation	45.6	46.4	43.3	5.3	45.9	-0.7	
Interest	123.1	120.0	117.7	4.6	116.4	5.8	
Exceptional items	134.5	0.0	0.0	NA	-20.0	NA	
PBT	277.7	170.9	149.9	85.3	130.2	-1,391.1	
Taxes	34.5	43.4	34.4	0.4	39.2	-12.0	
PAT	243.2	127.5	115.5	110.5	91.0	167.3	

Source: Company, ICICI Direct Research

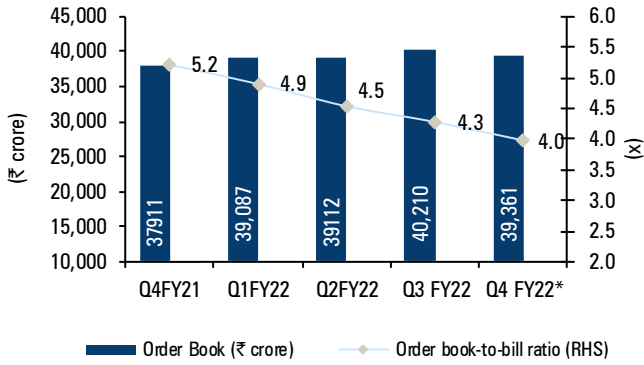
Exhibit 2: Change in estimates

(₹ Crore)	FY22E		FY23E		FY24E			
	New	Old	New	% Change	Old	New	% Change	
Revenue	9,930.0	11,155.4	10,927.5	-2.0	12,387.7	12,090.1	-2.4	Realign estimates
EBITDA	996.1	1,221.5	1,096.2	-10.3	1,356.5	1,212.8	-10.6	
EBITDA Margin (%)	10.0	11.0	10.0	-97 bps	11.0	10.0	-92 bps	
PAT	490.1	479.9	421.2	-12.2	569.3	489.1	-14.1	
EPS (₹)	8.0	7.9	6.9	-12.2	9.3	8.0	-14.1	

Source: Company, ICICI Direct Research

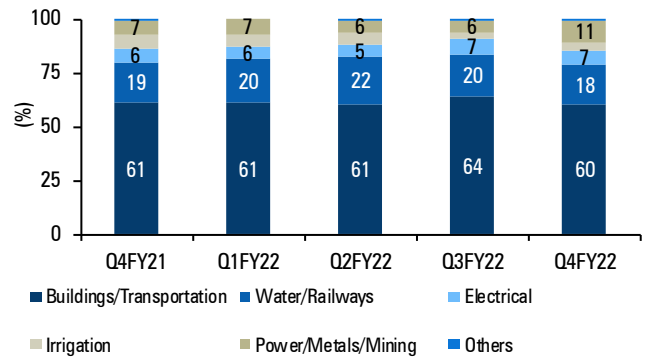
Company Analysis

Exhibit 1: Quarterly order book trend



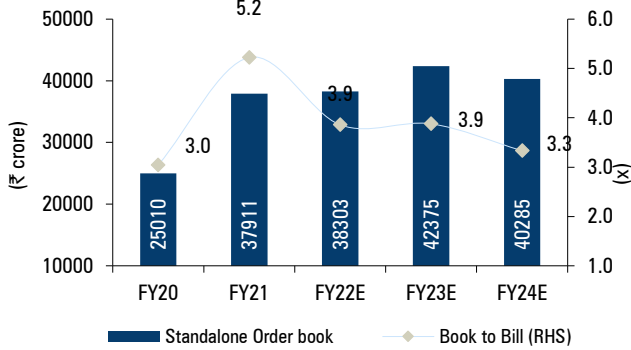
Source: Company, ICICI Direct Research; *includes subsidiaries order book worth ₹ 3,058 crore

Exhibit 2: Orderbook composition



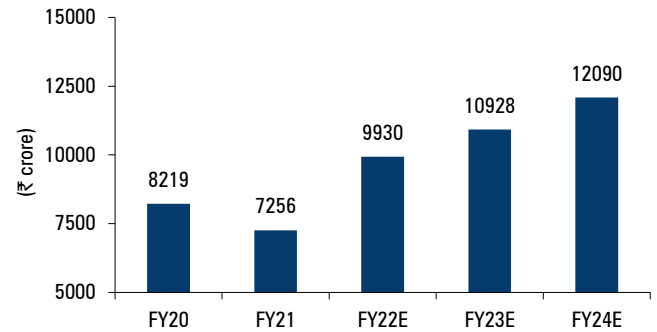
Source: Company, ICICI Direct Research

Exhibit 3: Annual orderbook trend



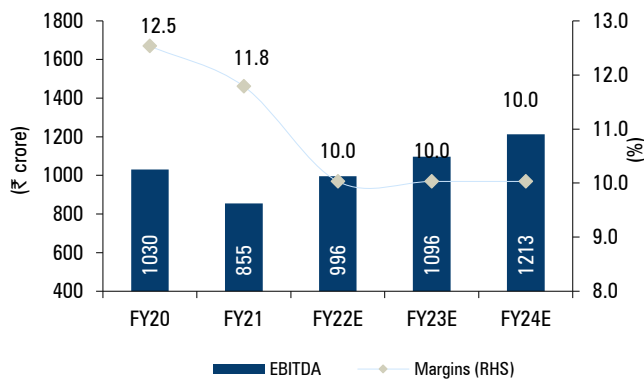
Source: Company, ICICI Direct Research

Exhibit 4: Annual revenue trend



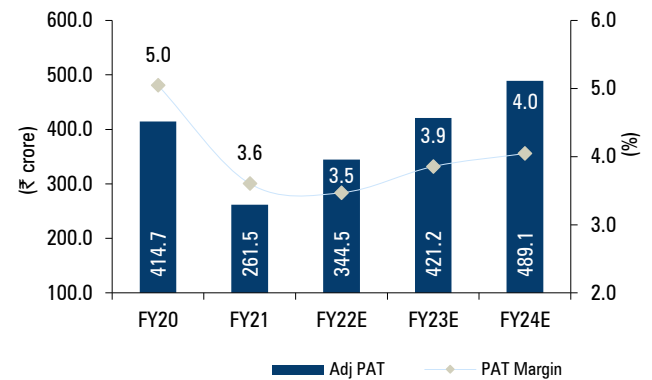
Source: Company, ICICI Direct Research

Exhibit 5: Annual EBITDA trend



Source: Company, ICICI Direct Research

Exhibit 6: Annual PAT trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
₹ crore	FY21	FY22	FY23E	FY24E
Net Sales	7,256.0	9,930.0	10,927.5	12,090.1
Other Income	115.6	108.2	113.6	121.6
Total revenues	7,371.6	10,038.2	11,041.2	12,211.7
Raw Material Expenses	2,383.2	3,393.6	3,734.5	4,131.8
Employee benefit expense	349.6	429.1	472.2	522.5
Construction expenses	3,481.7	4,878.6	5,368.7	5,939.8
Other Expenses	186.2	232.6	255.9	283.2
Total operating expenses	6,400.7	8,933.9	9,831.4	10,877.3
EBITDA	855.4	996.1	1,096.2	1,212.8
Interest	457.8	459.6	453.8	476.2
Depreciation	174.1	182.3	191.4	202.6
PBT	339.1	608.0	564.7	655.6
Taxes	77.6	117.9	143.4	166.5
PAT	261.5	490.1	421.2	489.1
Adjusted PAT	261.5	344.5	421.2	489.1
EPS	4.3	8.0	6.9	8.0

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
₹ crore	FY21	FY22	FY23E	FY24E
Profit after Tax	261.5	490.1	421.2	489.1
Depreciation	174.1	182.3	191.4	202.6
Prov for Taxes	317.8	71.3	77.6	117.9
Cash Flow before wc changes	519.7	732.1	752.0	874.8
Change in WC	(47.1)	230.9	(467.2)	(435.2)
Taxes Paid	86.8	(130.9)	(143.4)	(166.5)
Net CF from op. activities	552.9	890.4	145.5	256.5
(Purchase)/Sale of Fixed Assets	(177.0)	(187.8)	(199.9)	(150.0)
(Purchase)/Sale of Investments	(130.5)	73.8	-	-
Net CF from inv. activities	(307.5)	(114.0)	(199.9)	(150.0)
Proceeds from Secured Borrowing	(108.3)	(604.8)	100.0	100.0
Proceeds from Unsecured Borrowing	(12.9)	-	-	-
Net CF from fin. activities	(123.6)	(656.5)	15.8	2.2
Net Cash flow	121.8	119.9	(38.7)	108.7
Opening Cash	316.9	438.6	558.5	519.9
Closing Cash	438.6	558.5	519.9	628.5

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
₹ crore	FY21	FY22	FY23E	FY24E
Equity Capital	122.0	122.0	122.0	122.0
Reserve and Surplus	5,242.7	5,681.2	6,018.2	6,409.5
Total Shareholders funds	5,364.7	5,803.2	6,140.2	6,531.4
Total Debt	1,788.9	1,184.1	1,284.1	1,384.1
Other Non-current Liabilities	-	-	-	-
Deferred Tax Liability	(41.1)	(54.1)	(54.1)	(54.1)
Source of Funds	7,112.4	6,933.1	7,370.1	7,861.4
Gross Block	2,151.6	2,354.0	2,551.6	2,701.6
Less: Accumulated Dep	1,107.9	1,290.3	1,479.4	1,682.0
Net Block	1,043.7	1,063.7	1,072.2	1,019.6
Capital WIP	21.5	7.0	7.0	7.0
Total Fixed Assets	1,065.3	1,070.7	1,079.2	1,026.6
Investments	1,230.6	1,156.7	1,156.7	1,156.7
Inventory	526.8	787.8	868.2	960.6
Sundry Debtors	2,660.3	2,492.2	2,844.2	3,146.7
Loans & Advances	330.0	407.8	449.1	496.9
Cash & Bank Balances	438.6	558.5	519.9	628.5
Other Current Assets	5,949.5	6,775.0	7,455.6	8,248.8
Total Current Assets	9,905.2	11,021.4	12,136.9	13,481.5
Trade Payable	3,714.2	4,280.6	4,710.6	5,211.7
Provisions	102.2	116.9	128.6	142.3
Other Current Liabilities	1,728.7	2,441.9	2,687.2	2,973.1
Total Current Liabilities	5,545.1	6,839.4	7,526.4	8,327.1
Net Current Assets	4,360.1	4,182.0	4,610.5	5,154.4
Application of Funds	7,112.4	6,933.1	7,370.1	7,861.4

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	FY21	FY22	FY23E	FY24E
Per Share Data				
Reported EPS	4.3	8.0	6.9	8.0
Cash EPS	7.1	11.0	10.0	11.3
BVPS	88.0	95.2	100.7	107.1
Operating Ratios				
EBITDA / Net Sales	11.8	10.0	10.0	10.0
PAT / Net Sales	3.6	3.5	3.9	4.0
Return Ratios				
RoE	4.9	5.9	6.9	7.5
RoCE	11.2	13.3	13.8	14.4
RoIC	10.2	12.8	13.2	14.0
Valuation Ratios				
EV / EBITDA	6.0	4.4	4.2	3.8
P/E	14.5	7.8	9.0	7.8
EV / Net Sales	0.7	0.4	0.4	0.4
Market Cap / Sales	0.5	0.4	0.3	0.3
Price to Book Value	0.7	0.7	0.6	0.6
Turnover Ratios				
Asset turnover	1.0	1.4	1.5	1.5
Debtors Turnover Ratio	1.6	3.8	3.1	2.7
Creditors Turnover Ratio	2.2	2.7	2.1	2.0
Solvency Ratios				
Net Debt / Equity	0.3	0.1	0.1	0.1
Current Ratio	1.7	1.5	1.5	1.5
Quick Ratio	1.6	1.4	1.4	1.4

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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